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When does the Socio-cultural Context Matter? Communal Orientation and Entrepreneurs' Resource Accumulation Efforts in Africa

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When does the socio-cultural context matter? Communal orientation and entrepreneurs' resource accumulation efforts in Africa

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We examined the effect of entrepreneurs' *communal orientation* and social capital on entrepreneurs' acquisition of resources, and the cost of raising those resources. Using an errors-in-variables estimation in a sample of 242 Ugandan entrepreneurs from Kampala, we find that *shared identity* is positively associated with the quantity of resources raised by entrepreneurs, whereas *shared identity* and *communal orientation* are associated with a higher cost of raising resources. Further, *communal orientation* positively moderates the relationship between *kin composition* and the quantity of resources raised; whereas *communal orientation* negatively moderates the relationship between *trust*, *shared identity*, and resources. In contrast, a high *communal orientation* is associated with increased cost of raising resources when *shared identity* is high. These findings reveal that entrepreneurs' socio-cultural contexts, particularly *communal orientation*, has a moderating effect on the relationship between entrepreneurs' social capital and resource accumulation.

Research has shown that resources enhance competitive advantage (Barney, 1991; Dierickx & Cool, 1989; Penrose, 1972) and firm performance (George, 2005), and that social capital is a primary mechanism that enables individuals to mobilize resources (Adler & Kwon, 2002; Nahapiet & Ghoshal, 1998), including financial resources (Uzzi, 1999). Over the past three decades, scholars have tended to emphasize positive social capital outcomes, such as success at resource mobilization (e.g., Aldrich & Zimmer, 1986; Kim & Adlrich, 2005), accessibility to information (Burt, 1997), stabilization of exchange relationships (Oliver, 1990), and improvement of firm performance (Davidsson & Honig, 2003; Nahapiet & Ghoshal, 1998). A pervasive characteristic of these studies has been an overt emphasis on the positive aspects of social capital, but with limited assessment of its negative implications, giving rise to unbalanced and one-sided views of social capital. However, there is an emerging view that social capital can also be constraining (Adler & Kwon, 2002; Portes, 1998), particularly when the same social relations place demands that drain resources (Kiggundu, 2002). Our study contributes to this literature by jointly

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examining positive and negative implications of social capital for resource accumulation efforts of entrepreneurs.

In an effort to present a more balanced view of social capital, scholars have recently begun to develop models that incorporate not only the benefits of social capital, but also negative contributions, for example, risks related to influence, information, and solidarity (Adler & Kwon, 2002). Although such studies have enhanced our understanding, the conditions under which social capital may undermine resource accumulation still remain unclear. We propose that socio-cultural contexts, particularly the *communal orientation* of the entrepreneur, may be useful in explaining how demands placed by one's social relations deplete resources, thereby hindering resource accumulation. Indeed, culture influences economic outcomes (Guiso, Sapienza, & Zingales, 2006) and entrepreneurship (George & Zahra, 2002; Hayton, George, & Zahra, 2002). Furthermore, socio-cultural context is identified as crucial in explaining how relationships between variables may change in organizations (Liden & Antonakis, 2009). Despite its importance, and the established relationship between culture and entrepreneurship, there is limited research on how entrepreneurs' socio-cultural contexts affect the social capital – resource assembly link. In this study, we examine how *communal orientation* of entrepreneurs may moderate the relationship between social capital and entrepreneurs' resource accumulation efforts using data collected from entrepreneurs in Africa. We chose Africa because it remains under-researched despite its uniqueness in terms of cultural diversity, economic, political and institutional challenges, and increased focus on economic liberalization through entrepreneurship, in order to achieve economic development and growth; characteristics that make it a unique ground for research on entrepreneurship (Bruton, Ahlstrom, & Obloj, 2008; Hoskisson, Eden, Lau, & Wright, 2000).

Our study has two main objectives. First, we aim to contribute to an understanding of a less researched area; negative implications of social capital in entrepreneurship. By so doing, we respond to the call for researchers to go beyond analysing only the positive aspects of social capital – that is, how it helps entrepreneurial firms to alleviate resource constraints and access opportunities – to examining its negative effects. We do this by investigating how social capital contributes both positively and negatively to resource accumulation in entrepreneurial firms. So far, Adler and Kwon's (2002) model is one of the few that presents a balanced view of social capital. Whereas they do distinguish between the dimensions of social capital, we clearly delineate the enablers and constraints of each of the three dimensions of social capital. Second, we examine conditions under which social capital may deter entrepreneurs' resource accumulation efforts. We believe that it is important to investigate not only positive and negative relationships of social capital to resource accumulation, but also how these relationships are affected by other factors. Specifically, we believe that entrepreneurs' socio-cultural contexts, particularly *communal orientation*, play a key role in influencing the relationship between social capital and its outcomes. Therefore, we examine the moderating role of a socio-cultural variable, *communal orientation*, on the relationship between social capital and resource accumulation in entrepreneurial firms in Uganda, Africa.

Theory and hypotheses

Social capital theory is based on the premise that networks of social relations constitute a resource that may enable and/or hinder social and economic activities and outcomes

(Adler & Kwon, 2002; Granovetter, 1985; Nahapiet & Ghoshal, 1998). Though scholars have defined social capital in different ways, we restrict our definition of social capital to 'a focal actor's (individual or group) network of relationships, including the structural, relational and cognitive dimensions that may facilitate and/or constrain its actions and outcomes' (Khayesi, 2010, p. 23).

Structural social capital refers to the pattern of connection in a network while relational social capital is the nature of affective relationships within the network. Cognitive social capital, on the other hand, relates to attributes that facilitate understanding and communication within the network. In order to illustrate the relationship between the three dimensions of social capital and amount of resources as well as the cost of raising resources, we use *network composition* for structural social capital, *trust* for relational social capital, and *shared identity* for cognitive social capital. Our study develops hypotheses on the relationship between *network composition, trust, and shared identity* on resource accumulation (cost of raising resources and quantity of resources that entrepreneurs acquire through their network contacts). Our resource accumulation variables are based on Dierickx and Cool's (1989) illustration of resource flows into and out of a firm. In our study, the quantity of resources raised corresponds to resource inflow*s* while the cost of raising resources corresponds to resource outflows. Competitive advantage may be achieved when there is a positive balance between resource inflows and outflows where resources raised exceed costs of raising resources.

Network composition and resource accumulation

Structural social capital shows the extent to which network contacts are connected to the focal actor (Nahapiet & Ghoshal, 1998). This social capital dimension has received a lot of research attention, which is partly reflected in the measures developed for it. In this study, we use *network composition* as an appropriate measure of structural social capital in order to delineate clearly the amount of resources acquired and the costs associated with the acquisition thereof. *Network composition* is often described as types of ties in a network, for example, the proportion of a focal actor's family ties or kin members in the network (Renzulli, Aldrich, & Moody, 2000). Like Renzulli *et al.* (2000), we operationalize *network composition* as the proportion of kin in the *network* or *kin composition*. Hence, we use the terms *network composition* and *kin composition* interchangeably.

There is little doubt that entrepreneurs' ties provide them with resources and/or access to resources (Davidsson & Honig, 2003; Granovetter, 1973; Lerner, Brush, & Hisrich, 1997; Plickert, Côté, & Wellman, 2007; Uzzi, 1999). Whereas entrepreneurs' family relationships may provide them with financial resources, Plickert *et al.* (2007) caution that kin seldom provide the much-needed firm resources. Additionally, a large proportion of kin in the network reduces network heterogeneity thereby limiting the amount of resources that can be acquired through the network (Renzulli & Aldrich, 2005; Renzulli *et al.*, 2000; Ruef, Aldrich, & Carter, 2003). Moreover, a large proportion of kin in the network imply an increase in the social demands that are to be fulfilled using an entrepreneur's resources (Kiggundu, 2002). Typical demands in East Africa include financial contributions to community projects, school fees, and medical expenses for family relations (Jackson, Amaeshi, & Yavuz, 2008; Munene, 2005; Luke, Munshi, & Rosenzweig, 2004). Due to increased social demands from entrepreneurs' kin members, we expect the cost of raising resources to increase with *kin composition*.

Hypothesis 1: The greater the *kin composition* of a focal entrepreneur's network, (a) the fewer will be the resources that the entrepreneur can achieve through the network, and (b) the higher will be the cost of raising resources.

Trust and resource accumulation

Relational social capital refers to the 'assets created and leveraged through relationships' (Nahapiet & Ghoshal, 1998), and reflects the form of affective relationships in the network (Bolino, Turnley, & Bloodgood, 2002). Relational social capital has received significant attention in management and entrepreneurship in a variety of discussions, for example, trustworthiness (Nahapiet & Ghoshal, 1998; Tsai, 2000), trust (Leana & Van Buren, 1999; Nahapiet & Ghoshal, 1998), reciprocity transactions and enforceable trust (Portes & Sensenbrenner, 1993), and duration and multiplexity of relationships (Uzzi, 1999; Uzzi & Gillespie, 2002). We use *trust* as our measure of social capital in order to illustrate the relationship between relational social capital and resource accumulation. *Trust* is often implicitly assumed in discussions of relational social capital, for example, in Uzzi's (1999) discussion of duration and multiplexity of relationships. *Trust* is often treated as an intermediate outcome of relational social capital that allows the individual to mobilize relational capital to enable outcomes such as resource assembly.

Trust has been defined as 'the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party' (Mayer, Davis, & Schoorman, 1995, p. 712). The concept of *trust* involves a trustor and a trustee, and assumes that each party involved in the relationship will perform their expected roles (Coleman, 1990; Mayer *et al.*, 1995; Welter & Smallbone, 2006; Zahra, Yavuz, & Ucbasaran, 2006). *Trust* also involves risk taking by individuals and reliance on each other, resulting in the transfer, exchange, or sharing of resources (Coleman, 1990; Mayer *et al.*, 1995; Portes & Sensenbrenner, 1993; Tsai, 2000; Zahra *et al.*, 2006). *Trust* also ensures that young firms acquire the legitimacy that they need in order to access business resources and markets (Welter & Smallbone, 2006).

Although *trust* helps reduce an entrepreneur's costs in economic transactions (Welter & Smallbone, 2006), entrepreneurs have to handle it cautiously and be alert of network members who may shirk and not fulfil expectations or may attempt to behave opportunistically (Zahra *et al.*, 2006), resulting in an increased cost of maintaining the network. Therefore, the risk-taking aspect of *trust*, expectation of faithful fulfillment of one's expected roles, and affection between the entrepreneur and network members will facilitate resource acquisition for the entrepreneur. In contrast, to bring about *trust* among network members will result in high costs associated with maintaining the network, for instance, through repeated expensive social interactions, and increase the aggregate cost of resources.

Hypothesis 2: The greater the *trust* between a focal entrepreneur and his/her network contacts, the higher will be the (a) resources that the entrepreneur can achieve through the network, and (b) the cost of raising resources.

Shared identity and resource accumulation

Cognitive social capital facilitates understanding and communication within the network through shared meanings and representations among network members using shared resources such as narratives, codes, and language (Nahapiet & Ghoshal, 1998). The

shared understanding and communication encourage members to exchange and share resources. Previous research has operationalized cognitive social capital as relationship quality (Yli-Renko, Autio, & Sapienza, 2001), goal and interest alignment (Maurer & Ebers, 2006), collective goals and actions or associability (Leana & Van Buren, 1999), and shared language and narratives (Bolino *et al.*, 2002). We interpret cognitive social capital as *shared identity* because it captures shared representations, interpretations, and meanings consistent with Nahapiet and Ghoshal's (1998) definition of cognitive social capital.

Shared identity refers to commonality or common characteristics among network members (Hite & Hesterly, 2001). Commonality may arise from shared resources, for example, culture and norms (Inkpen & Tsang, 2005), language (Nahapiet & Ghoshal, 1998), professions (Maurer & Ebers, 2006), or even bounded solidarity (Portes & Sensenbrenner, 1993). Commonality in *shared identity* networks creates goodwill thereby encouraging members to share and exchange resources (Hite & Hesterly, 2001). Further, cognitive social capital, or the shared understanding and identity that arises from it, engenders social exchange and distributive justice (Colquitt, 2001; Cropanzano & Mitchell, 2005). For instance, shared perceptions of procedural justice facilitate partnership formation and resource exchange among firms (Luo, 2005). In sum, cognitive social capital allows entrepreneurs to raise more resources because they trigger a sense of fairness, and is seen as appropriate behaviour in supporting members within a network with shared meanings and norms.

Contrarily though, shared norms in *shared identity* networks can easily 'create excessive expectations of obligatory behaviour and may possibly result in problems of free riding and unwillingness to experiment beyond the network' (Inkpen & Tsang, 2005, p. 153). Such negative norms may lead to heavy costs to entrepreneurs in order to fulfil demands of network members. In such cases, interactional and distributive justice arguments would suggest that members with *shared identity* may anticipate that the entrepreneur would reciprocate by providing support for their other activities. Consequently, although the goodwill, mutual understanding, and communication within the network enable entrepreneurs to acquire resources from their network, negative norms lead to high costs of maintaining the network.

Hypothesis 3: The greater the *shared identity* between a focal entrepreneur and his/her network contacts, the higher will be (a) the resources that the entrepreneur can achieve through the network, and (b) the cost of raising resources.

The moderating role of communal orientation

Given that entrepreneurship takes place within specific socio-cultural contexts, there is a need to understand how context affects entrepreneurial outcomes. We use the entrepreneur's *communal orientation* to illustrate the moderating influence of socio-cultural context on the relationship between social capital and resource accumulation. *Communal orientation* reflects the individual's interactions with one's community (Clark, Ouellette, Powell, & Milberg, 1987) or communal relationships (Clark & Mills, 1979). The social capital–resource accumulation relationship involves a give and take form of relationship where entrepreneurs incur costs in the process of giving to their social relations, and they receive benefits in the form of resources from their social relations. Research has shown that type of relationships affect the giving and receipt of benefits (Clark & Mills, 1979). As opposed to strict economic exchange relationships

where benefits are given in return for benefits received or expected to be received, in communal relationships, benefits are given in response to the receiver's needs (Clark & Mills, 1979). Consequently, we expect communal relationships, through the *communal orientation* of the entrepreneur, to moderate the relationship between social capital variables and resources received. Limited published work has examined whether *communal orientation* of entrepreneurs interact with social capital variables to influence resource accumulation.

Communal orientation is defined as 'a desire to give benefits in response to the perceived needs of others' (Truchot & Deregard, 2001, p. 354), and measures one's willingness to engage in communal interactions (Clark *et al.*, 1987). Because of increased communal interactions, highly communally oriented individuals are likely to have homogeneous networks comprised largely of members of their communities. Homogenous networks increase redundancy (Burt, 1997) thereby limiting resources that entrepreneurs can access through the network (Renzulli & Aldrich, 2005). This argument concurs with literature on bargaining behaviour that expects high communal oriented people to end up with fewer resources compared to those with low *communal orientation* in a negotiation (Thompson & DeHarpport, 1998).

Communal orientation also reflects an individual's feeling of responsibility, sensitivity, and responsiveness to other people's needs (Clark & Finkel, 2005; McCall, Reno, Jalbert, & West, 2000; Thompson & DeHarpport, 1998) and is characterized by 'selflessness, concern with others, and a desire to be at one with others' (Eagly & Steffen, 1984, p.736). These qualities make communally oriented individuals likely to help the needy (Clark *et al.*, 1987), and meet the needs of the other party in the case of a negotiation process (Thompson & DeHarpport, 1998), thereby increasing the cost of maintaining the network, and of resources accumulated.

Hypothesis 4: The greater the *communal orientation* of the entrepreneur, (a) the fewer the resources that the entrepreneur can achieve through the network, and (b) the higher the cost of raising resources.

Beyond the direct effects hypothesized, we posit that *communal orientation* will moderate the effects of structural, relational, and cognitive social capital on resources raised and the cost of raising resources by entrepreneurs. As noted, *kin composition* limits the amount of resources that entrepreneurs can acquire through their networks, while increasing the cost of raising resources due to increased social obligations and demands from kinship ties. A high *communal orientation* of an entrepreneur will amplify this effect by increasing network homogeneity, and the entrepreneur's willingness to fulfil social demands of kin members.

When *kin composition* is high, resources available to the entrepreneur are restricted because the nature of resources available is less variable (Ruef *et al.*, 2003). That is, kin are likely to have access to similar kinds of resources as the focal entrepreneur. When *communal orientation* is high, this access to resources is likely to be further restricted due to a smaller pool of individuals that are likely to be both kin and share high *communal orientation*. In meeting communal demands from network members, the entrepreneur further increases the cost of maintaining the network. In such cases, members feel that they are owed more by the entrepreneur due to distributive justice and fairness norms in social exchange processes (Kiggundu, 2002), thereby placing a larger burden on the entrepreneur to service their needs. Consequently, high *kin composition*

and *communal orientation* are likely to reduce resources available and increase the cost of resources raised through this network.

Hypothesis 5a: *Communal orientation* will negatively moderate the relationship between *kin composition* and resources raised, such that higher *communal orientation* will further exacerbate the negative relationship between *kin composition* and resources raised through the network.

Hypothesis 5b: *Communal orientation* will positively moderate the relationship between *kin composition* and cost of resources, such that higher *communal orientation* will further increase the positive relationship between *kin composition* and cost of resources raised through the network.

We noted previously that high *trust* between entrepreneurs and network members increases the resources that the entrepreneurs can achieve through the network and the cost of raising resources. If an entrepreneur has a high *communal orientation*, this effect will be amplified. If an entrepreneur with a high *communal orientation* will likely be more sensitive to other people's needs (Clark *et al.*, 1987), the entrepreneur concomitantly incurs heavy costs meeting the needs of other network members. Although increased *trust* generally should lead to increased resources, when entrepreneurs' *communal orientation* is high, increased communal interactions will reduce network heterogeneity, thereby reducing the amount of resources that the entrepreneurs can raise through the network, while at the same time increasing the cost of resources raised.

Hypothesis 6a: *Communal orientation* will negatively moderate the relationship between *trust* and resources raised, such that higher *communal orientation* will weaken the positive relationship between *trust* and resources raised through the network.

Hypothesis 6b: *Communal orientation* will positively moderate the relationship between *trust* and cost of resources, such that higher *communal orientation* will further increase the positive relationship between *trust* and cost of resources raised through the network.

Similarly, high *shared identity* between entrepreneurs and network members is likely to increase resource exchange. However, negative norms that result in free-riding behaviour among *shared identity* networks may lead to high costs to an entrepreneur (Inkpen & Tsang, 2005). We propose that this relationship will be amplified by the *communal orientation* of the entrepreneur. High *communal orientation* increases network homogeneity and consequently reduces resource access and availability. We further propose that if entrepreneurs have high *communal orientation*, increased *shared identity* will expose them to greater social pressures and demands of network members. The end result, therefore, will be lower resource access and heavier costs for entrepreneurs who are more willing to help network members due to *shared identity*.

Hypothesis 7a: *Communal orientation* will negatively moderate the relationship between *shared identity* and resources raised, such that higher *communal orientation* will weaken the positive relationship between *shared identity* and resources raised through the network.

Hypothesis 7b: *Communal orientation* will positively moderate the relationship between *shared identity* and cost of resources, such that higher *communal orientation* will further increase the positive relationship between *shared identity* and cost of resources raised through the network.

Methods

Sample and procedure

Our study respondents comprised Ugandan entrepreneurs of diverse ethnicity and entrepreneurs of Asian origin in Kampala (Kampala is the capital city and commercial center of Uganda). A total of 242 micro-, small-, and medium-sized garment-making, and information and communication technology (ICT) entrepreneurs were interviewed. Because of high levels of distrust in this volatile, socio-political context, mail surveys do not often yield much response. Consequently, we opted for face-to-face interviews to enable us achieve the maximum response rate in our study context (Frankfort-Nachmias & Nachmias, 1996).

We initially used secondary sources, such as an online business directory, the Uganda Small Scale Industries Association, directory of Uganda Manufacturers' Association, and the ICT centre at Makerere University to construct our list of 260 garment-making and ICT firms in Kampala. A follow-up, telephone call, and physical visits to verify the existence of these firms revealed that the existing lists were not up-to-date; many firms were non-existent, some did not belong to the indicated industries, and others could not be found at the indicated addresses. This follow-up yielded a total 39 real/existing firms in the garment-making industry and 95 in the ICT industry. Furthermore, we found out that there were a number of firms clustered in different parts of Kampala that did not appear on any of the lists.

Because of the difficulty of finding reliable, up-to-date sampling frames as is often the case with developing countries (Bostoen & Chalabi, 2006), we opted to visit all the entrepreneurs in our population. We trained six post-graduate students from Makerere University Business School in Kampala, who helped us administer the questionnaire to all entrepreneurs who accepted the invitation to interview: 128 in garment-making and 114 in ICT. We visited all garment-making and ICT entrepreneurs in Kampala, introduced ourselves and presented to them an introduction letter given to us by the graduate research centre at Makerere University Business School (the primary university at Kampala) in order to increase *trust* among the respondents. We explained to them that we were conducting research on the use of social capital for resource acquisition among entrepreneurs in Uganda. We also explained to them that their participation in the survey would benefit the entrepreneurial community by unearthing factors that facilitate or constrain entrepreneurial efforts in Uganda, and that this study would enable us to come up with possible solutions to some of the entrepreneurs' resource acquisition-related problems. We then requested them if they would accept to participate in the survey. For all those who accepted to participate, we fixed an appointment, left them with the questionnaire, and then came for the interview at the appointed date and time. Each interview took between 45 and 90 min. We spent 3 full months conducting the interviews. Overall, it took us 5 months (from February 2008 to June 2008), between our initial contact in our study area and the completion of data gathering. We used this period to develop contacts with institutions supporting small- and medium-sized firms in Kampala, prepare for the interviews, gather information about and familiarize with the study area and sample, arrange for and conduct the interviews.

Measures

The key measures on the structured interview questionnaire were derived from the literature to the extent possible. The scale items were adapted and modified to suit the Ugandan context, and measured on a seven-point format (1 = *disagree* to 7 = *agree*). We developed and used a structured questionnaire to gather data from our respondents. Because this questionnaire was developed using sources predominantly from developed economies, we reviewed and pre-tested it on a sample of 15 entrepreneurs in Kampala. Based on the pre-test, we revised the questionnaire as needed. This questionnaire was then used to gather data from our respondents through face-to-face interviews, conducted in English.

Dependent variables

Resource accumulation

Dierickx and Cool (1989) conceptualized the accumulation of asset stocks as the cumulative result of the flows of assets in a firm. Using the example of Research and Development (R&D), Dierickx and Cool (1989) operationalized the accumulation of know-how as the cumulative result of R&D spending (inflows) and depreciation of know-how over time (outflows). We follow Dierickx and Cool's (1989) conceptualization of resource accumulation but our focus is on financial resource accumulation. Hence, we use two variables to represent resource accumulation: amount or quantity of resources raised (*resource inflow*), and cost of raising resources (*resource outflow*). We asked our respondents to indicate the amount of money they had received (in Ugandan shillings) from different network contacts in the past year, then calculated the total as the *Quantity of Resources Raised*. We also asked respondents to indicate the amount of money (in Ugandan shillings) that they had spent on different community social activities, contributions to the financial needs of network contacts, and interest paid on any resources received in the past year. We then calculated this total as the *Aggregate Cost of Raising Resources*.

Independent variables

Network (or kin) composition

From a list of different types of social relations, for example, parents, siblings, cousins, and business associates, we asked respondents to indicate: (a) the total number of social relations that they interacted with regularly, and (b) the exact number of network contacts that provided them with any business input (like finances, labour, and business advice). We then calculated the proportion of kin who do not provide business inputs. This measure was adopted and modified from Renzulli and Aldrich (2005) and Renzulli *et al.* (2000).

Trust

We measured *trust* ($\alpha = .66$) using four statements reflecting transparency within the network or the extent to which the network was characterized by *trust* in terms of reliability and promise keeping. Sample item: 'I know that my network contacts will listen if I have issues to discuss with them'. Previous research (e.g., Konovsky & Pugh, 1994; Saparito, Chen, & Sapienza, 2004; Tsai & Ghoshal, 1998) has used similar *trust* items.

Shared identity

We measured *shared identity* ($\alpha = .69$) using three statements that reflect the extent of similarity in cultural beliefs, value systems, and language between respondents and network members. Sample item: 'We speak the same language (local mother tongue) with majority of my network contacts'. Our scale of *shared identity* was modelled after Nahapiet and Ghoshal (1998). The concepts that we used for this scale were borrowed from social psychology literature on social identity (Ashforth & Mael, 1989).

Communal orientation

This variable was measured using four statements reflecting the *communal orientation* of the respondent. The items used for the scale of *communal orientation* ($\alpha = .60$) were adapted and modified from Clark *et al.* (1987). Sample item: 'I often go out of my way to help other people'.

Control variables

The first set of control variables was firm-related: *Industry, firm size, and firm age*. We included these variables because previous research suggests that they affect the relationship between social capital and its outcomes (Yli-Renko *et al.* 2001). Like previous studies (e.g., Yli-Renko *et al.*, 2001), *industry* was dummy-coded. *Firm size* was measured by the number of full-time paid employees in 2007, consistent with previous studies (e.g., Saparito *et al.*, 2004; Yli-Renko *et al.*, 2001) that used number of employees. Consistent with prior research on social capital, *firm age* was measured as total years since the firm was founded (e.g., Saparito *et al.*, 2004; Stam & Elfring, 2008).

The second set of control variables was entrepreneur-related: *Age at founding, gender, race, level of education, and prior work experience*. We controlled for entrepreneurs' age because it has a relationship with entrepreneurial outcomes (Lerner *et al.* 1997). We controlled for *gender*, *race*, and *level of education* because previous research (James, 2000; Renzulli *et al.* 2000) shows that these variables have relationships with social capital variables. Additionally, *race* has a relationship with entrepreneurship (Aldrich & Waldinger, 1990). Finally, we included *prior work experience* because prior research shows that it influences resource mobilization (Shane & Cable, 2002) and access to prior information (Shane, 2000). *Age at founding* was calculated by subtracting the year when the firm was founded from the year the entrepreneur was born. *Gender, race, level of education,* and *prior work experience* were dummy-coded.

Finally, we controlled for one network-related variable, *network size*, because previous research (Uzzi, 1999) has shown that it correlates with other measures of network structure. Consistent with prior research (James, 2000; Renzulli *et al.*, 2000; Uzzi, 1999; Uzzi & Gillespie, 2002), we measured *network size* as the total number of first order contacts in the respondent's network. We focused on first order contacts because of our interest in egocentric networks (Lin, 1999).

Model specification

Bascle (2008) notes that strategic management researchers have widely used the ordinary least squares (OLS) estimator for regression. Nonetheless, using the OLS estimator when there is a problem of endogeneity (that is, when an independent variable correlates with the error term of the equation) yields inconsistent estimates (Antonakis, Bendahan, Jacquart, & Lalive, 2010; Bascle, 2008). Our model has potential endogeneity due to

measurement error in the independent variables. In the presence of measurement error, the regression coefficients of the independent variables that are measured with error are attenuated and inconsistent, which may affect the coefficients of the other independent variables that are correlated with the problematic variables (Antonakis *et al.*, 2010). Additionally, bias arising from measurement error can affect the signs of the estimates, resulting in potential wrong conclusions about relationships being investigated (Busemeyer & Jones, 1983). These problems are amplified when there are interaction terms involved, for instance, in moderated regression analysis, hence making it difficult to detect significant contributions from interaction terms (Busemeyer & Jones, 1983). Most survey and cross-section data are often measured with error (Davidson & MacKinnon, 1993). Furthermore, constructs that are not directly observed but are often measured using multiple indicators will contain measurement errors; however, this measurement error must be explicitly modelled to render coefficients consistent (Bollen, 1989).

In our study, we expected measurement error because we used a set of different scale items to generate composite measures for *trust, shared identity*, *and communal orientation* given that these variables cannot be observed directly. Although *kin composition* is an objective measure of the proportion of kin in the network, measurement error due to inaccurate reporting may arise from recall problems or forgetfulness. Therefore, where one's model involves latent variables and/or cross-section data, it is important to use a regression or maximum likelihood method that takes into account measurement error. Because our model had some variables that had lower reliability coefficients (for example α for *trust* was .66, for *shared identity* was .69, and for *communal orientation* was .60), we opted to use an errors-in-variables regression (EIVREG) method as recommended by Busemeyer and Jones (1983) and Antonakis *et al.* (2010). Because of heteroskedasticity, we estimated our model with a robust variance estimator in Mplus.

Results

Table 1 shows the correlation matrix and descriptive statistics for all measures. We present the results of the regression analysis in Table 2. All the regression coefficients are standardized. We use these results to test the study hypotheses.

Our analysis (Table 2) indicates that the variables in our model significantly explained the variance in resources raised ($R^2 = .36, p < .01$) and cost of raising resources ($R^2 = .37, p < .01$).

First, we examined the direct effects of the independent variables and the moderator on the dependent variables. *Kin composition* had non-significant positive relationships with resources raised and cost of raising resources, showing lack of support for Hypotheses 1a and 1b. *Trust* had non-significant positive relationships with resources raised and cost of raising resources, showing lack of support for Hypotheses 2a and 2b, respectively.

Shared identity had significant positive relationships with resources raised ($\beta = .19$, $p < .01$) and cost of raising resources ($\beta = .12, p < .05$), showing support for Hypotheses 3a and 3b, respectively. Finally, the direct effect of *communal orientation* on resources raised was negative but non-significant, showing lack of support for Hypothesis 4a. However, *communal orientation* had a significant positive relationship with cost of raising resources ($\beta = .12, p < .05$), confirming Hypothesis 4b.

Next, we examined the moderating effect of *communal orientation* following procedures for analysing interaction effects described by Kline (2011) using an EIVREG

Table 1. Descriptive statistics and correlations

Variable	Mean	*SD*	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. *Finances*	13.06	33.29	1													
2. *Cost*	2.54	4.70	.89*	1												
3. *EAgeF*	27.09	7.12	.27*	.33*	1											
4. *Industry*[a]	0.53	0.50	−.29*	−.31*	−.25*	1										
5. *Firm size*	3.25	4.47	.69*	.69*	.14*	−.27*	1									
6. *Gender*[a]	0.62	0.49	.12*	.15*	.19*	−.46*	.05	1								
7. *Race*[a]	0.96	0.20	−.43*	−.30*	.01	.22*	−.33*	−.12	1							
8. *Firm age*[a]	0.33	0.47	.04	−.01	−.30*	.34*	.13*	−.30*	−.08	1						
9. *Edu*[a]	0.97	0.18	.07	.08	.10	−.17*	.13*	.10	−.04	.03	1					
10. *PWE*[a]	0.52	0.50	.16*	.16*	.22*	−.15*	.17*	.31*	−.01	−.06	.14*	1				
11. *NSize*[b]	3.59	0.61	.10	.13*	.04	.13*	.20*	.07	.11	.10	.23*	.29*	1			
12. *KinC*[b]	3.86	0.68	.04	.14*	.21*	−.40*	−.01	.25*	.01	−.20*	.00	.12	−.03	1		
13. *Trust*	4.54	1.08	.17*	.22*	.21*	−.12	.12	.21*	.03	−.09	.03	.25*	.13*	.24*	1	
14. *ShID*	4.02	1.47	.05	−.09	−.20*	.40*	−.05	−.23*	−.01	.13*	−.02	−.09	.17*	−.47*	−.27*	1
15. *COr*	4.81	0.99	−.01	.05	.09	−.23*	.06	.27*	−.14*	−.13*	.12	.26*	.13*	.18*	.48*	−.31*

Note. The following abbreviations represent: EAgeF, entrepreneur's *age at founding*; Edu, level of formal education; PWE, *prior work experience*; NSize, *network size*; KinC, *kin composition*; ShID, *shared identity*; and COr, *communal orientation*.

[a]These are dummy variables coded as: industry (1 if garment-making & 0 otherwise i.e., ICT); *gender* (1 if male & 0 otherwise); *race* (1 if African & 0 otherwise); *firm age* (1 for firms of more than 5 years old & 0 otherwise i.e., firms of up to 5 years old); formal education (1 if the responded attended formal schooling & 0 otherwise); and *prior work experience* (1 if the respondent has prior work experience & 0 otherwise).

[b]log transformed.

*correlations are significant at the .05 level.

Table 2. Results from errors-in-variables regression analysis

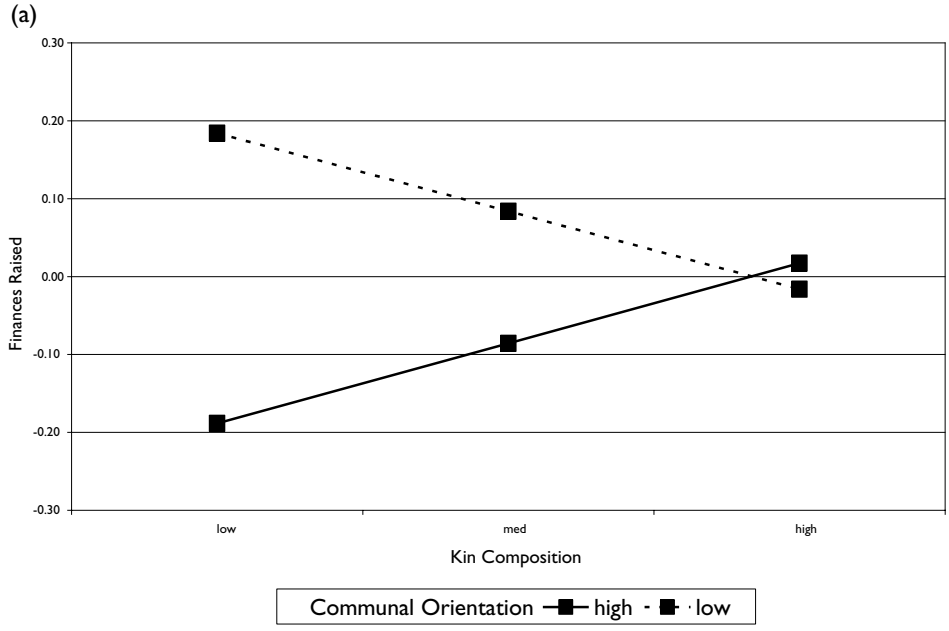
Variables	Aggregate cost of resources		Quantity of resources raised	
	Regression coefficients[†]	Standard errors	Regression coefficients[†]	Standard errors
Controls				
Entrepreneur's *age at founding*	.42**	.11	−.10	.13
Industry	−.43**	.11	.02	.13
Firm size	−.19*	.08	.24**	.08
Gender	−.14*	.06	−.03	.07
Race	.03	.07	−.05	.07
Firm age	−.11*	.05	−.01	.06
Formal education	−.19**	.06	−.14	.08
Prior work experience	.07	.07	.07	.08
Network size	−.21*	.09	−.04	.08
Main effects[a]				
Kin composition	.05	.03	.002	.04
Trust	.09	.07	.02	.06
Shared identity	.12*	.05	.19**	.06
Communal orientation	.12*	.05	−.09	.06
Interactions[b,c]				
Kin composition × *Communal orientation*	−.02	.06	.15*	.07
Trust × *Communal orientation*	−.01	.06	−.28**	.06
Shared identity × *Communal orientation*	.42**	.07	−.19**	.07
Constant	−.004	.06	−.001	.06
R^2	.37**		.36**	

Note. [†]Estimates are standardized; $N = 242$; $^{**}p < .01$, $^{*}p < .05$.
[a]main effects are all mean centered.
[b]variables were mean centered before creating interactions.
[c]we assumed a reliability of .64 for the interaction terms.

method. We created product terms to represent interaction effects of the moderator (*communal orientation*) with the main effects of independent variables in the equation. We interpreted a moderating effect to exist if an interaction term yielded significant results. The interaction between *communal orientation* and *kin composition* was positive and significant for resources raised ($\beta = .15$, $p < .05$) and negative but non-significant for cost of raising resources, showing lack of support for Hypotheses 5a and 5b, respectively.

The interaction between *communal orientation* and *trust* was negative and significant for resources raised ($\beta = -.28$, $p < .01$), confirming Hypothesis 6a. This interaction yielded a negative non-significant relationship with cost of raising resources, showing lack of support for Hypothesis 6b. Finally, the interaction between *communal orientation* and *shared identity* negatively contributed to resources raised ($\beta = -.19$, $p < .01$), but positively contributed to cost of raising resources ($\beta = .42$, $p < .01$), confirming Hypotheses 7a and 7b, respectively.

To better interpret these results, we plotted the fitted slopes showing the interaction effects for significant relationships that were realized for: (a) high *communal*



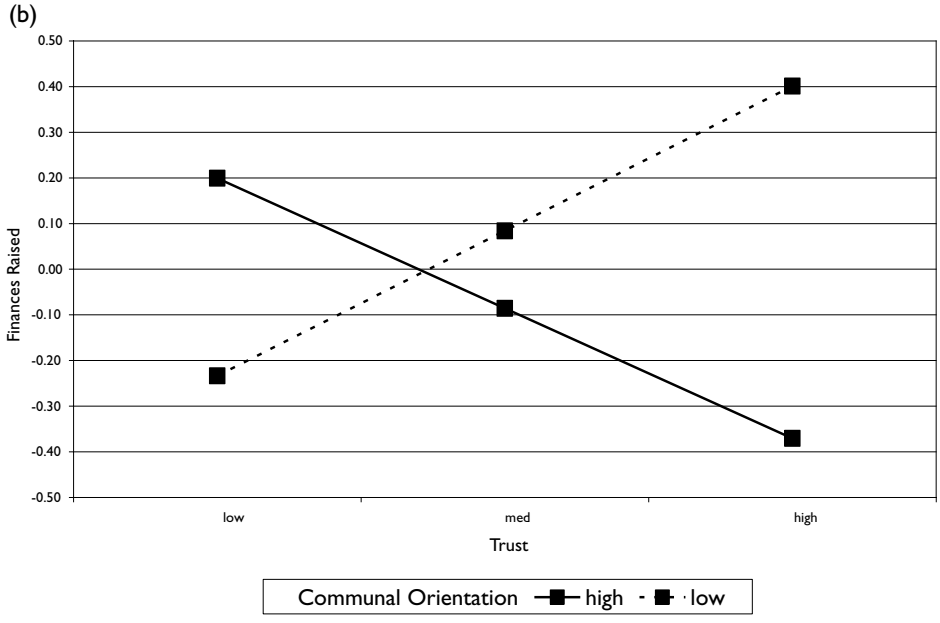


Figure 1. (a) Moderation of the effect of *kin composition* on finances raised by *communal orientation*; (b) moderation of the effect of *trust* on finances raised by *communal orientation*; (c) moderation of the effect of *shared identity* on finances raised by *communal orientation*; (d) moderation of the effect of *shared identity* on cost of raising resources by *communal orientation*.

orientation, and (b) low *communal orientation* (Figures 1a–1d). To test for the significance of the regression lines obtained for *kin composition*, we performed a simple slope analysis. Contrary to what we postulated in Hypothesis 5a, Figure 1a reveals a non-significant positive relationship between *kin composition* and resources

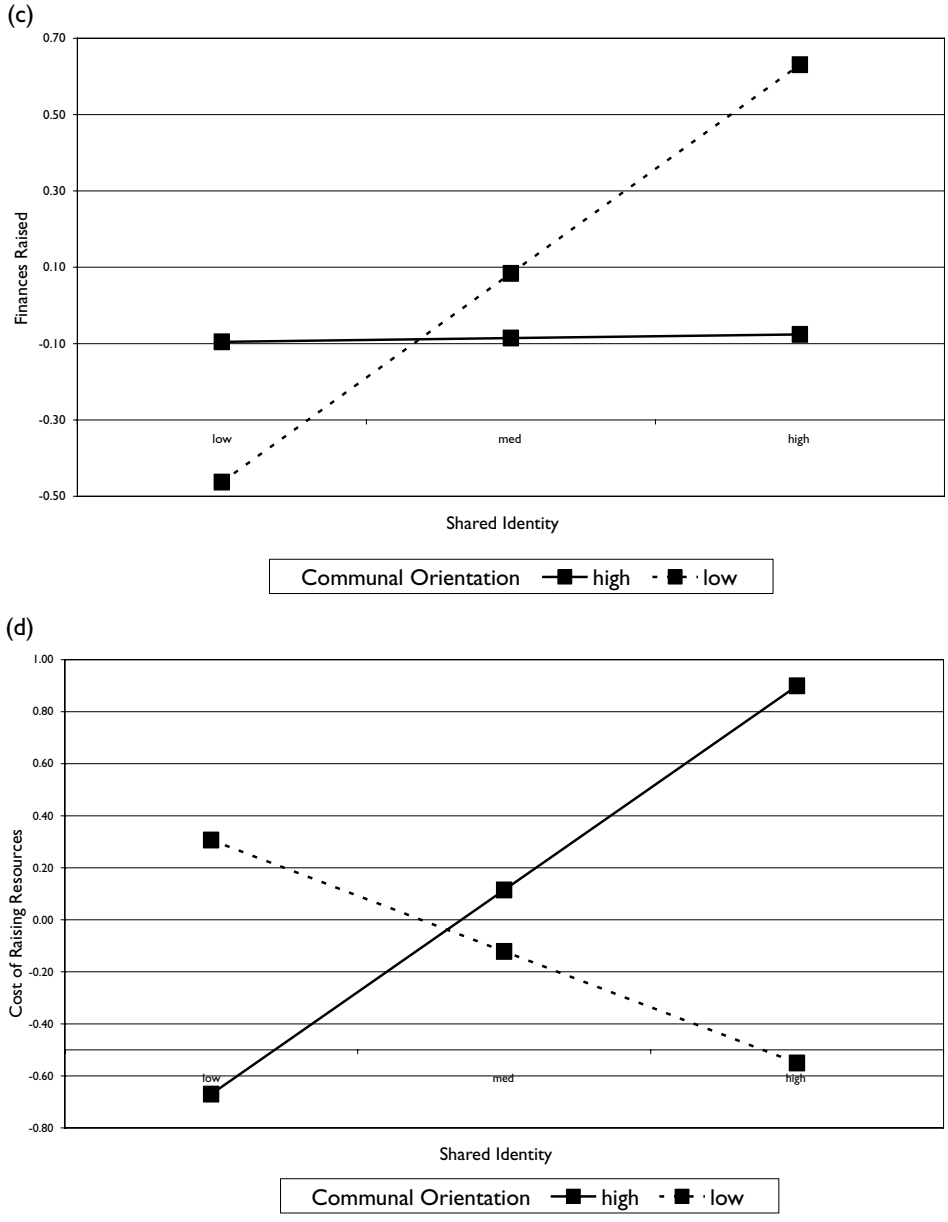


Figure 1. Continued

raised when *communal orientation* was high ($t = 1.71$, $p > .05$) but a non-significant negative relationship when *communal orientation* was low ($t = -1.66$, $p > .05$). This shows lack of support for Hypothesis 5a, though it presents us with an interesting finding.

Figure 1b shows a significant negative relationship between *trust* and resources raised when *communal orientation* was high ($t = -3.17$, $p < .01$), but a positive relationship when *communal orientation* was low ($t = 3.54$, $p < .001$), confirming Hypothesis 6a.

Figure 1c shows a positive but non-significant relationship between *shared identity* and resources raised when *communal orientation* is high ($t = 0.08$, $p > .05$). This relationship is positive and significant when *communal orientation* is low ($t = 4.47$, $p < .001$). These results provide partial support for Hypothesis 7a. Finally, Figure 1d shows a positive and significant relationship between *shared identity* and the cost of raising resources when *communal orientation* is high ($t = 6.42$, $p < .001$), and a significant negative relationship when *communal orientation* is low ($t = -3.51$, $p < .001$), thereby confirming Hypothesis 7b.

Discussion

Research on social capital in entrepreneurship has been criticized for placing an overwhelming emphasis on positive contributions of this theory and paying less attention to its negative contributions, resulting in one-sided models (Adler & Kwon, 2002). Despite this initial effort, the conditions under which social capital may undermine resource accumulation still remain unclear. This study was intended to partly fill this gap by enhancing an understanding of how the entrepreneurs' socio-cultural context and the three dimensions of social capital interactively influence resource accumulation positively and negatively. Our study reveals that *shared identity* positively (and significantly) contributes to resources raised and cost of raising resources. *Communal orientation* positively (and significantly) contributes to the cost of raising resources. As for moderation, our study reveals that in our context, the interaction between *communal orientation* and *shared identity* significantly contributes to an increased cost of raising resources. The interaction between *communal orientation* and *kin composition* significantly contributes to an increased amount of resources raised, whereas the interactions between *trust* and *communal orientation*, and *shared identity* and *communal orientation* significantly reduced the quantity of resources raised. These findings provide new insights into the relationship between social capital and resource accumulation.

The finding that entrepreneurs' socio-cultural environments, particularly *communal orientation*, may affect resource accumulation through their social capital has important theoretical and practical implications for management and entrepreneurship. Evidence from this study shows that increased communal interactions that characterize highly communal oriented societies (Clark *et al.*, 1987), like our study context in Africa, may increase network homogeneity thereby limiting access to business resources. Overall, this study may help us to begin to understand why entrepreneurs in certain contexts raise more money through their social capital while others raise less money.

Theoretical implications

The findings of this study have important implications that may provide new insights into previous models on the relationship between social capital and resource assembly. Examining aggregate costs of raising resources through one's social capital is novel given that previous studies have tended to analyse actual resources acquired through the network (e.g., Renzulli & Aldrich, 2005; Renzulli *et al.*, 2000; Yli-Renko *et al.*, 2001) without considering the aggregate costs of raising those resources besides the cost of capital (Uzzi, 1999). Using aggregate costs of raising resources enhances our understanding of negative contributions of social capital. The finding that *shared identity* increases the resources raised as well as the cost of raising resources is a step forward

in enhancing an understanding of ways in which social capital may constrain as well as facilitate resource accumulation, thereby presenting a balanced view of social capital. The finding that *shared identity* increases the cost of raising resources is in line with Inkpen and Tsang's (2005) suggestion that excessive expectations of obligatory behaviour may result in free riding and unwillingness to experiment beyond the network. This finding suggests that more commonality between an entrepreneur and the network members leads to higher costs of maintaining the network because free-riding behaviour may increase network members' expectation that the entrepreneur ought to fulfil their social demands.

The finding that *communal orientation* significantly increases the aggregate cost of raising resources is a step forward in unearthing socio-cultural contexts under which social capital may undermine resource accumulation in entrepreneurial firms. This finding forms the basis for investigating the moderating effect of socio-cultural context on established relationships between social capital and its outcomes. The finding that *communal orientation* partially moderates the relationship between social capital and resource accumulation in entrepreneurial firms helps to enhance our understanding of situations under which social capital may facilitate as well as hinder resource accumulation for entrepreneurs. More importantly, this finding uncovers one of the reasons why social capital may function differently in different contexts. This finding reveals the importance of considering socio-cultural environments when studying social capital–resource accumulation relationships. Future studies could extend this research to investigate the influence of *communal orientation* and other socio-cultural variables, such as collectivism, on other social capital outcomes, such as knowledge acquisition, labour, and legitimacy for firms. Additionally, other independent variables could be explored, for example, *network size, network density, and network complementarity* for structural social capital; *reciprocity, duration of relationship, multiplexity of relationship, and social interaction* for relational social capital; and shared interests and goals for cognitive social capital.

Practical implications

Our practical implications stem from our finding that entrepreneurs who have a high *communal orientation* receive fewer resources at a high cost through their social capital. These costs are largely attributed to the social demands that network members place on entrepreneurs (Kiggundu, 2002). Indeed, cases of negative firm growth (Kiggundu, 2002), negative firm profitability, and eventual business failure (Tushabomwe-Kazooba, 2006) have been reported previously in Africa. Our findings suggest that these problems could be partly caused by excessive costs of raising resources compared to amount of resources raised due to entrepreneurs' *communal orientation*. While we realize that entrepreneurs from high communalistic societies cannot do away with demands from their social relations, our findings suggest that it is important for entrepreneurs to (a) expand their networks beyond their communities in order to increase network heterogeneity thereby enhance chances of getting more resources; (b) set a clear limit to the social demands that they can meet in order to reduce the costs associated with their network members; and (c) make a clear distinction between resources meant for firm development and resources that they can use to meet social demands of their social relations in order to ensure that they do not use firm resources for meeting social demands.

Our study also has practical implications for policy makers and small enterprise support groups. As noted by De Soto (2000), the problems faced by entrepreneurs in developing economies is not lack of resources, but rather the flow or circulation of resources. In addition to financial (and other) assistance that policy makers and small enterprise support organizations offer to entrepreneurs in developing economies, we recommend that these organizations develop special training programmes focusing on how entrepreneurs in developing economies can configure their structural, relational, and cognitive social capital in order to ensure that the resources acquired exceed the costs of raising those resources.

Limitations and recommendations for future research

Whereas this study has made a contribution to literature in entrepreneurship and management, it does have its limitations. First, this study uses cross-sectional data to investigate the relationship between social capital and resource accumulation by entrepreneurs. The results that we obtained, therefore, do not reveal the temporal effect of social capital. Securing such data in our context in Africa is exceedingly difficult. Future studies could secure longitudinal data in order to capture changes in the social capital and resource accumulation relationship over time, and under what circumstances such changes may occur.

Second, we calculated the resources raised and cost of raising resources for the whole sample in our study. Future researchers could disaggregate these variables and examine the relative resources raised and costs from different network contacts. This disaggregation is necessary given that different types of relations such as immediate kin, extended kin, and other members of the network differentially contribute to the costs of raising resources.

Finally, this study was conducted in Kampala, an urban setting. Future research, however, can include both rural and urban respondents so as to examine whether there are differences in the relationship between social capital of entrepreneurs and resource accumulation based on rural or urban contexts or firm location. To take it a step further, a comparison of results from different countries would enhance the validation of our model.

Conclusion

The main purpose of this study was to examine the relationship between entrepreneurs' social capital and the accumulation of resources within the context of entrepreneurs' *communal orientation*. We examined resource accumulation with respect to resources raised and aggregate cost of raising resources through entrepreneurs' social capital. We found that *shared identity* increased both the aggregate cost of raising resources and the amount of resources raised through the network, whereas *communal orientation* increased the cost of raising resources. Additionally, the interaction between *communal orientation* and (a) *kin composition* increased the resources raised; (b) *trust* reduced the resources raised; and (c) *shared identity* increased the cost of raising resources, but reduced the amount of resources raised. These results lead us to conclude that entrepreneurs' *communal orientation* affects entrepreneurs' resource accumulation efforts. Entrepreneurs from highly communalistic societies could attempt to configure their networks to include more contacts beyond their community members. Including

members from outside communities might help increase heterogeneity, and consequently improve chances of raising more resources through entrepreneurs' networks.

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